Shree Rama Newsprint Limited

February 21, 2020

Ratings

SN.	Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
I	Long-term Bank Facilities	154.835 (reduced from Rs.170.555 crore)	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	Reaffirmed
II	Long term/ Short term Bank Facilities	6.00 (reduced from Rs.90.00 crore)	**CARE BB+; Stable/ CARE A4+ (Double B Plus; Outlook: Stable/ A Four Plus)**	Reaffirmed (re-classify from ST to LT/ST)
III	Long-term Bank Facilities @	2.56 (reduced from Rs.12.84 crore)	**CARE BBB (CE); Negative [Triple B (Credit Enhancement; Outlook: Negative]**	Reaffirmed; Outlook revised from Stable to Negative
	Total Facilities	**163.395 (Rupees One Hundred Sixty Three Crore Thirty Nine Lakh and Fifty Thousand only)**		

Details of facilities in Annexure-1

@ Bank facilities are backed by the unconditional and irrevocable corporate guarantee of Riddhi Siddhi Gluco Biols Limited

Detailed Rationale & Key Rating Drivers [Shree Rama Newsprint Limited (SRNL)]

The standalone/ unsupported ratings assigned to the bank facilities of SRNL continue to be constrained due to its volatile total operating income and profitability, high debt level, susceptibility of its profitability to volatility in raw material prices, presence in competitive and cyclical newsprint segment with risk of cheaper import and stabilization and salability risk associated with writing and printing paper project. The ratings also factor sharp decline in total operating income and profitability during 9MFY20 (UA; FY refers to period April 1 to March 31) due to adverse movement in newsprint prices apart from disruption in production on the back of ongoing modernization and up-gradation capex.

The unsupported ratings of SRNL, however, continue to derive strength from its experienced and resourceful management, demonstrated financial support of Riddhi Siddhi Gluco Biols Limited (RSGBL; the parent of SRNL) and the dominant position of SRNL in domestic newsprint industry with strategic location of its plant. The ratings also factor in expected improvement and stability to its profitability margin from on-going up-gradation and modernization capex.

<u>Rating Sensitivities</u>

Positive Factors:

- Completion of ongoing up-gradation and modernization project within envisaged time and cost parameters along with realizing envisaged benefits therefrom
- Improvement in PBIDLT margin in the range of 10-12% and ROCE of more than 10% on sustained basis

Negative Factors:

- Change in management's stance to support the operations of SRNL
- Continued weak profitability marked by PBIDLT margin of less than 8% on sustained basis

Detailed Rationale & Key Rating Drivers for CE Rating

The CE rating assigned to the bank facility of SRNL (referred in Sr. No. III above) is based on the credit enhancement in the form of an unconditional and irrevocable corporate guarantee extended by RSGBL.

The credit profile of RSGBL continues to derive strength from its financial risk profile marked by steady cash accruals, comfortable capital structure and adequate liquidity.

The credit profile of RSGBL, however, continues to remain constrained due to high propensity to support operations of SRNL, delay in realization of wind energy receivables with counter party risk and volatility in traded commodity prices. The credit profile of RSGBL also factors in high exposure towards Inter Corporate Deposits (ICDs) and susceptibility of investment portfolio due to volatility in prices of quoted investments and interest rate movement.

Outlook: Negative

The outlook on the CE rating of the long term bank facilities of SRNL which is guaranteed by RSGBL has been revised to 'Negative' due to expectation of moderation in available liquidity with RSGBL and higher exposure of ICDs to non-related parties which is contrary to CARE's earlier expectation of reduction in such exposure. The outlook may be revised to 'Stable' if there is higher than expected cash accruals and / or proceeds from sale of land which augments its liquidity.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Rating Sensitivities

Positive Factors:

- Improvement in financial performance of SRNL which reduces the propensity of RSGBL to support the operation of SRNL
- Significant reduction in ICD extended by RSGBL to non-related parties

Negative Factors:

- Deterioration in liquidity with increase in net debt above Rs.100 crore

Detailed description of the key rating drivers (SRNL)

Key Rating Weaknesses

Decline in total operating income (TOI) and profitability margins leading to net and cash loss during 9MFY20: TOI of SRNL which grew by 16% during FY19 over FY18 backed by increase in average sales realization, declined sharply by 40% during 9MFY20 on y-o-y basis due to fall in newsprint prices and lower production. SRNL is undertaking up-gradation and modernization capex resulting into disruption in production. Moreover, during 9MFY20, PBILDT margin declined to 3.45% (9MFY19: 16.45%) due to lower sales volume and decline in average sales realization of its products. After reporting net profit of Rs.38.23 crore in FY19 due to favorable newsprint prices, SRNL reported net loss of Rs.34.08 crore and cash loss of Rs.12.22 crore during 9MFY20. However, the loss of SRNL is being funded by unsecured loans from RSGBL.

High debt level: Despite schedule repayment of term loan and lower working capital borrowings, total debt of SRNL continued to remain high at Rs.332 crore as on March 31, 2019 due to increase in unsecured loans from RSGBL to fund the losses apart from working capital and capex requirement. The total debt of SRNL further increased to nearly Rs.400 crore as on December 31, 2019 largely due to increase in unsecured loans from RSGBL. As on March 31, 2016, SRNL had net worth of Rs.17.36 crore which was restated to Rs.421.44 crore due to adoption of Ind-AS accounting w.e.f. April 1, 2015. Under I-GAAP, property, plant and machinery were stated at cost less accumulated depreciation while as per Ind-AS, the company had undertaken fair value of the fixed assets and assigned significant higher value to fixed assets taking corresponding credit to reserves and surplus. Moreover, SRNL had issued Zero Coupon Debentures (ZCDs) which was valued at carrying cost under I-GAAP while the same is now valued at discounted value/ fair value and accordingly, the gain on fair value was recognized as income in P&L thereby taking credit to reserves and surplus. Further, with the fair valuation of ZCDs, the debt outstanding on the books as on March 31, 2016 was restated to Rs.27.65 crore. These ZCDs are repayable during FY26-FY28.

Susceptibility of profitability to volatile raw material prices: Major raw material for manufacturing of newsprint and WPP is waste paper. Around 35-45% of the raw material requirement is met through imported waste paper. The price of waste paper depends critically on the demand-supply position of the same and is subject to high price volatility. Since there is no long-term arrangement for sourcing the same, SRNL is exposed to the risk of raw material price volatility. SRNL procures imported waste paper either on advance basis or against the document which eliminates the risk of forex rate fluctuation to a certain extent.

Presence in competitive newsprint segment with increase in cheaper imports: Due to non-availability of adequate raw materials, domestic paper manufacturers find it difficult to be globally competitive and thus cheap imports are growing. Moreover, duty on imports of paper and paperboard under ASEAN Free Trade Agreement (FTA) is zero. Further, Government of India during Budget 2020 reduced import duty on newsprint paper from 10% to 5%. Price of imported newsprint paper which has increased by nearly 40% during FY19 has declined by 25% during 9MFY20 which in turn lead to decline in domestic price of newsprint paper. Import duty and depreciation of Indian rupee has significant impact on capacity utilization and profitability margins of Indian paper mills as India imports more than 50% of its domestic newsprint paper requirement. Any change in parity between prices of waste paper and newsprint paper, strengthening of Indian rupee thereby reducing competitiveness of Indian rupee may put pressure on profitability of domestic players.

Stabilization and saleability risk associated with ongoing capex: SRNL has commissioned integrated packaged drinking water bottle plant in July 2019 having installed capacity of 32,000 BPH (bottle per hour) at project cost of about Rs.47 crore funded through unsecured loans from RSGBL. SRNL is outsourcing for 'clear' brand for 200ml and 500ml of water bottle. Moreover, SRNL is upgrading and modernizing its existing plant and machinery at cost of Rs.79 crore which is being funded through unsecured loans from RSGBL. The capex includes refurbishment of both machines and enabling flexibility in manufacturing of Newsprint and Writing and Printing Paper (WPP), apart from improvement in efficiency. One machine is fully re-furbished and started producing WPP since October 2019 while re-furbishing of remaining machine is under progress and is expected to complete by end of March 2020. SRNL has incurred capex of Rs.45 crore till December 31, 2019 funded through unsecured loans from RSGBL. The project is expected to benefit the company in terms of improvement in scale of operation and more stability to profitability margin. However, any delay in stabilisation of the project may exert pressure on the profitability of the company which in turn could impact its liquidity especially in the backdrop of existing below average financial risk profile of the company. Hence, continuous support from the parent shall be critical from the credit perspective.

Key Rating Strengths

Experienced and resourceful management; albeit no prior experience in paper industry: Mr Ganpatraj Chowdhary, aged 57 years, is the Chairman of SRNL and looks after the overall operations of the company. Though, SRNL has long track record of operation in paper industry, the promoters have very little experience in paper industry. The Chowdhary family has rich experience in corn and corn product industry through a venture namely RSGBL which was promoted by Mr Ganpatraj along with other family members in 1994 for manufacturing of starch and starch derivatives.

Demonstrated support of RSGBL, parent of SRNL: RSGBL has extended loans and advances of Rs.153.15 crore as on March 31, 2019 (increased from Rs.78.17 crore as on March 31, 2018) which further increased to Rs.218.90 crore as on December 31, 2019. Increase in unsecured loan from parent supports the operation of SRNL, working capital requirement, debt servicing and on-going capex. Moreover, during Q3FY19 and Q2FY20, RSGBL has increased its equity stake in SRNL by 4.99% and 4.97% respectively via open market purchase taking its total equity stake to 69.81% as on December 31, 2019. This reflects RSGBL's management confidence in SRNL's business.

Dominant position in domestic newsprint industry with strategic location of plant: SRNL is one of the largest players in domestic newsprint market. SRNL's paper plant is located near Hazira, Surat in Gujarat. The location of the plant is advantageous due to its proximity to the major newspaper publishers in the Northern, Western and Southern region which has resulted in establishment of strong customer base.

Liquidity: Stretched

The liquidity of the company remains stretched due to cash loss incurred during 9MFY20 resulting into high reliance on working capital borrowings with average fund based working capital limit utilization of 93% for the trailing 12 months ended with November 2019. However, the liquidity of the company is supported by need based support in form of unsecured loans from its parent, RSGBL.

Detailed description of the key rating drivers (for the CE rating based on credit profile of RSGBL)

Key Rating Strengths

Adequate liquidity of RSGBL: As on March 31, 2019, RSGBL had free liquid investment of around Rs.191 crore (Rs.193 crore as on March 31, 2018) which reduced to Rs.101 crore as on December 31, 2019. Further, RSGBL through its subsidiary, Riddhi Siddhi Infraspace LLP (RSILLP) holds sizable land parcel in Ahmedabad having book value of approximately Rs.280 crore. RSGBL has sold major part of this land and executed sale deed. RSGBL is expected to receive proceeds from sale of land in tranches and entire transaction is expected to be concluded by June 2020 according to the company management. Any delay in receipt of proceeds from sale of land may result in reduction in free liquid investments amidst increase in support to SRNL. Apart from the available liquid investment and land portfolio, RSGBL has also extended short term inter-corporate deposits (ICDs) to various parties which too can be called back on demand to support its liquidity according to the management. As on December 31, 2019, RSGBL had free liquid investments of Rs.101 crore vis-à-vis total debt of Rs.115 crore (including guaranteed debt).

Key Rating Weaknesses

Credit risk associated with ICDs and susceptibility of investment portfolio due to volatility: RSGBL had extended ICDs (placed with non-related parties) worth Rs.309 crore as on March 31, 2019 which increased to Rs.372 crore as on December 31, 2019. During FY18, RSGBL had provided for doubtful loans of Rs.22.32 crore towards the ICDs which actually reversed in FY19. However, there remains an inherent credit risk associated with such large size ICDs. Moreover, company holds sizable investment portfolio both in quoted equity shares and debt mutual funds, the values of which are susceptible to movement in market prices along with interest rate movement.

Delay in realization of wind energy receivables with counter party risk and volatility in traded commodity prices: RSGBL has 33.15 megawatt installed windmill capacity spread across Tamil Nadu (28.5 MW), Maharashtra (3 MW) and Gujarat (1.65 MW) and has entered into power purchase agreements with state electricity boards at a fixed tariff. With a significant portion of wind power generation capacities located in Tamil Nadu, the company faces risks related to stretch receivables, given the weak financial risk profile of the Discom in the State of Tamil Nadu. Moreover, RSGBL also trades in agro commodity which makes the profitability susceptible to volatility in commodity prices.

Increased propensity to support the operations of SRNL: RSGBL's exposure to SRNL has increased to Rs.343 crore as on December 31, 2019 as against Rs.262 crore as on March 31, 2019 (Rs.139 crore as on March 31, 2018). Further, exposure of RSGBL in SRNL is further expected to increase in light of weak performance of SRNL and on-going capex. RSGBL has funded the operation of SRNL through available liquid investment which over a period of time has reduced.

Analytical Approach:
Standalone/Unsupported Rating: CARE has considered the standalone financials of SRNL along with expected need-based support from its parent, RSGBL.

Credit Enhanced Rating: CARE has considered the unconditional and irrevocable corporate guarantee extended by RSGBL for rating of the guaranteed debt in SRNL. RSGBL's assessment is based on its standalone operational and financial performance along with its exposure towards need-based support to SRNL.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
Criteria for Rating Credit Enhanced Debt
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector

About the Company (SRNL)
Incorporated in 1994, SRNL was initially promoted by Mr. Vashu Ram Singhani. Subsequently, in the year 2003, West Coast Paper Mills Limited (WCPM) along with his promoters acquired the majority stake in SRNL. However, during FY16, RSGBL acquired the majority stake from WCPM and its promoters.
SRNL is engaged in manufacturing of Newsprint paper and WPP. SRNL has a captive coal-based power plant which has power generation capacity of 23 MW. Moreover, SRNL has also started production of packaged drinking water bottle of "clear" brand from July 2019. With its plant located near the industrial belt of Hazira (in the Surat district of Gujarat); SRNL has access to most of the major newspaper publishers in the Northern, Western and Southern states of the country. As on December 31, 2019, SRNL has an aggregate installed capacity of 132,000 Metric Tonnes Per Annum (MTPA) of Newsprint and WPP.

Brief Financials (Rs. crore)	FY18 (Aud.)	FY19 (Aud.)
Total operating income	436.21	503.89
PBILDT	12.45	96.97
PAT	(29.91)	38.23
Overall gearing (times)	0.86	0.74
Interest coverage (times)	0.59	3.96

During 9MFY20, as per un-audited results, SRNL reported a net loss of Rs.34.08 crore on total operating income of Rs.245.83 crore as against net profit of Rs.24.54 crore on total operating income of Rs.408.53 crore during 9MFY19.

About the Guarantor (RSGBL)
Incorporated in 1994, by Ahmedabad based Chowdhary family for manufacturing starch and starch derivatives, RSGBL sold its starch segment to Roquette Riddhi Siddhi Private Limited for a consideration of Rs.950 crore which generated significant liquidity in the company and the same has been gradually invested in various ventures over the years. The company currently generates income from wind energy generation, trades in agricultural commodities and is engaged in investment activities. It also has a 33.15 megawatt installed windmill capacity spread across Tamil Nadu, Maharashtra and Gujarat and has entered into power purchase agreements with state Discoms at a fixed tariff.

Brief Financials (Rs. crore)	FY18 (Aud.)	FY19 (Aud.)
Total operating income	462.19	215.54
PBILDT	74.94	99.16
PAT	39.04	44.53
Total Comprehensive Income	87.59	37.99
Overall gearing (times)	0.12	0.09
Interest coverage (times)	2.03	5.96

During 9MFY20, as per un-audited results, RSGBL reported a net profit of Rs.51.73 crore on total operating income of Rs.135.56 crore as against net loss of Rs.1.61 crore on total operating income of Rs.140.71 crore in 9MFY19.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	June 2020	2.56	CARE BBB (CE); Negative
Fund-based - LT-Term Loan	-	-	June 2025	66.65	CARE BB+; Stable
Fund-based - LT-Working Capital Limits	-	-	-	88.19	CARE BB+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	6.00	CARE BB+; Stable / CARE A4+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	2.56	CARE BBB (CE); Negative	-	1)CARE BBB (SO); Stable (27-Feb-19) 2)CARE BBB (SO); Stable (08-Oct-18)	1)CARE BBB (SO); Stable (25-Sep-17)	1)CARE BBB (SO); Stable (06-Feb-17)
2.	Fund-based - LT-Working Capital Limits	LT	88.19	CARE BB+; Stable	-	1)CARE BB+; Stable (27-Feb-19) 2)CARE BB; Stable (08-Oct-18)	1)CARE BB; Stable (25-Sep-17)	1)CARE BB-; Stable (06-Feb-17)
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ ST	6.00	CARE BB+; Stable / CARE A4+	-	1)CARE A4+ (27-Feb-19) 2)CARE A4 (08-Oct-18)	1)CARE A4 (25-Sep-17)	1)CARE A4 (06-Feb-17)
4.	Fund-based - LT-Term Loan	LT	66.65	CARE BB+; Stable	-	1)CARE BB+; Stable (27-Feb-19) 2)CARE BB; Stable (08-Oct-18)	1)CARE BB; Stable (25-Sep-17)	1)CARE BB-; Stable (06-Feb-17)
5.	Fund-based - ST-Working Capital Demand loan	ST	-	-	-	-	1)Withdrawn (25-Sep-17)	1)CARE D (06-Feb-17)

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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